

**Jeremiah W. (Jay) Nixon**  
Governor



**Kelvin L. Simmons**  
Commissioner

State of Missouri  
**OFFICE OF ADMINISTRATION**  
Division of Accounting  
570 Truman Building, 301 West High Street  
Post Office Box 809  
Jefferson City, Missouri 65102  
(573) 751-2971  
**INTERNET:** <http://www.oa.mo.gov/acct>  
**E-MAIL:** [acctmail@oa.mo.gov](mailto:acctmail@oa.mo.gov)

**Mark A. Kaiser**  
Director

December 31, 2009

The Honorable Jeremiah W. (Jay) Nixon  
The Honorable Members of the Legislature  
Citizens of the State of Missouri

In accordance with generally accepted accounting principles, I submit to you the Comprehensive Annual Financial Report (CAFR) of the State of Missouri for the fiscal year ended June 30, 2009. This report was prepared by the Office of Administration, Division of Accounting, whose management is responsible for its contents.

The report is prepared to show the financial position and operating results of the State. The State's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit. We believe the data presented is accurate in all material respects and that all disclosures necessary to enable the reader to gain a reasonable understanding of the State's financial activities have been included.

An annual audit of the basic financial statements is completed each year by the State Auditor's Office. The State Auditor conducts the audit in accordance with generally accepted government auditing standards, and her opinion has been included in this report. The State Auditor conducts a "Single Audit" of all federal funds in accordance with the Federal Single Audit Act of 1984, and the U.S. Office of Management and Budget Circular A-133, "Audit of State and Local Governments and Non-Profit Organizations."

A narrative introduction, overview, and analysis of the basic financial statements is presented in the *Management's Discussion and Analysis (MD&A)* section of this report. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

## **PROFILE OF THE GOVERNMENT**

Missouri was organized as a territory in 1812 and was the second state (after Louisiana) of the Louisiana Purchase to be admitted to the Union. Statehood was granted on August 12, 1821, making Missouri the 24th state. The State encompasses 68,945 square miles.

The State operates under three branches of government: executive, legislative, and judicial. The executive branch consists of the Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, and Attorney General. The legislative branch consists of 34 members of the Senate and 163 members of the House of Representatives. The judicial branch is a three-tier court system: the Supreme Court, the State's highest court, has statewide jurisdiction; a court of appeals that consists of districts established by the General Assembly; and a system of circuit courts that has original jurisdiction over all cases and matters, civil and criminal.

The State provides a range of services in the areas of agriculture, education, health and social services, transportation systems, public safety, judicial systems, economic development, conservation and natural resources, labor relations, and general administration.

The State operates on a legally adopted budget in order to ensure compliance with legal provisions embodied in the annual appropriated budget passed by the General Assembly and approved by the Governor prior to the beginning of the fiscal year. If appropriations are not sufficient for a fiscal year, supplemental amounts are requested during the next legislative session by the same process that original appropriations are requested. Budgets are established at the department level. Expenditures cannot exceed the individual appropriation amount. Also, the Governor has the authority to reduce the allotments of appropriations in any fund if it appears that the revenue estimate will not be met. Unexpended appropriations lapse at the end of each appropriation year, unless reappropriated to the following appropriation year.

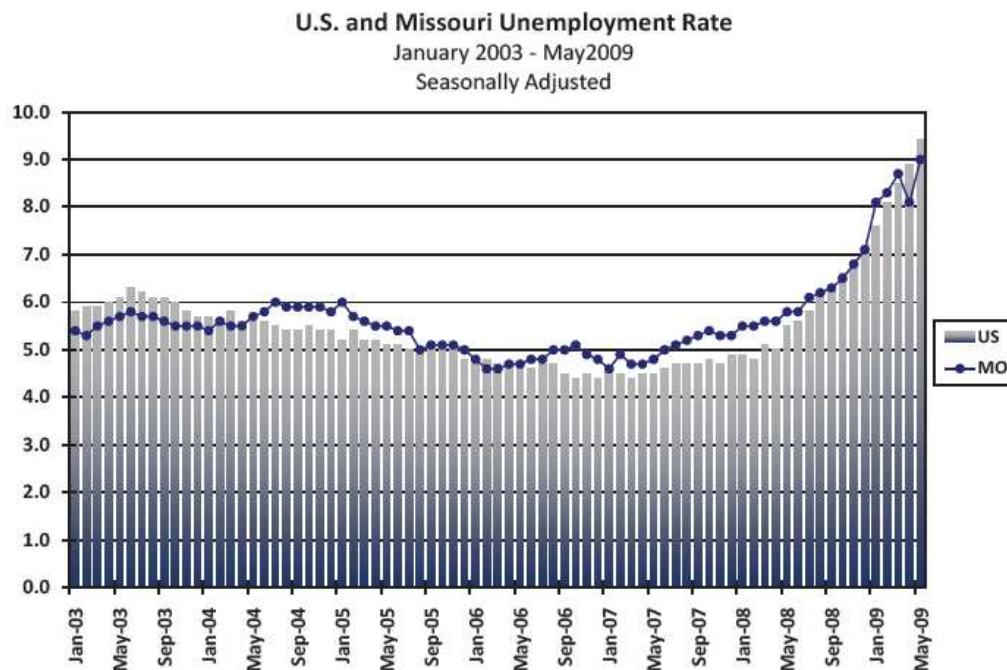
The financial reporting entity of the State includes all of the funds of the primary government as well as component units for which the State is financially accountable. The transmittal letter, MD&A, and the financial statements focus on the primary government and its activities. Although information pertaining to the component units is provided, their separately issued financial statements should be read to obtain a complete overview of their financial position.

## ECONOMIC CONDITION AND OUTLOOK

### State Economy

As a major manufacturing, financial, and agricultural state, Missouri's economic health is tied closely to that of the nation. The national economy has been in recession since December 2007. Struggles began in housing-related sectors, particularly financial services and construction, and progressed to nearly every industry. Missouri was slower to feel the effects of the recession initially but is now facing similar circumstances.

Unemployment rates in Missouri began to rise around the middle of 2008 and have continued upward since, with rapid increases during the first half of 2009. Missouri's rise in unemployment has followed the national trend, with the U.S. rate reaching 9.4% in May 2009, nearly doubling the 5.5% rate in May 2008. The seasonally adjusted unemployment rate for May 2009 in Missouri was 9%, up from 5.8% a year ago. Missouri's unemployment rate has not reached these levels since 1983.



*Source: Missouri Economic Research and Information Center/RealtyTrac*

Missouri's personal income, which directly impacts individual income tax and sales tax, rose at a 4.3% rate during calendar year 2008. Taxable sales for the second quarter 2009 were \$18.2 billion, which is a decrease of 6.72% in actual dollars compared to the same quarter of 2008. The economy has caused consumers to be cautious with their spending which has resulted in lower taxable sales. Missouri ranked 24<sup>th</sup> in personal income growth in the second quarter of 2009 and was ranked the 8<sup>th</sup> lowest in terms of cost of living.

Manufacturing and production are important parts of both the U.S. and Missouri economies and has had a serious adverse affect from the recession. Industrial production has declined in all but one month since January 2008. Manufacturing employment has also dropped rapidly since late 2008. In May 2009, there were 258,900 manufacturing jobs in the State, a decrease of 34,000 or 11.6% from a year ago, matching the national rate of decline. Declines have been spread across manufacturing sectors, but the greatest numeric drop has been in transportation equipment manufacturing, which includes motor vehicles.

Exports by Missouri companies totaled \$4.6 billion in the second quarter of 2009, compared to \$6.5 billion after the second quarter of 2008. This is due to the deepening global recession and falling agriculture and oil prices that caused a decline in Missouri worldwide merchandise exports.

### **Long-Term Financial Planning**

Missouri funding priorities include education, health care, and economic development. The State will continue to focus on controlling the growth of mandatory programs through various cost-effective alternatives and streamlining government functions.

The American Recovery and Reinvestment Act of 2009 (ARRA) was signed by President Barack Obama on February 17, 2009. ARRA provides funding for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and State and local fiscal stabilization. The ARRA will provide budget stabilization, fiscal relief, and economic stimulus dollars for Missouri in excess of \$4 billion over a 3 year period.

Missouri has a long-range plan to improve highways and bridges using federal stimulus money. The Missouri Highways and Transportation Commission has approved a list of 111 road projects funded with stimulus money, which is expected to directly or indirectly support 22,000 jobs. Two of the biggest projects involve improvements to Interstate 70 in St. Louis and Interstate 55 in New Madrid County. Missouri was the first state in the nation to begin construction on a road project using stimulus money with the replacement of the Osage River Bridge near Tuscumbia.

### **Relevant Financial Policies**

Article X of the Missouri Constitution imposes a limit on the amount of taxes that may be imposed by the General Assembly in any fiscal year. This limit is tied to total state revenues for each fiscal year and adjusted annually based on a formula which is tied to increases in the personal income of Missouri for certain designated periods. If the revenue limit is exceeded by 1% or more in any fiscal year, the excess revenue will be refunded based on the liability reported on state income tax returns. If the excess revenue collected is less than 1% of the revenue limit, the excess revenue shall be transferred to the General Revenue Fund.

The revenue limit can be exceeded by a constitutional amendment duly adopted by the people or if the General Assembly approves by a two-thirds vote an emergency declaration by the Governor. The State has refunded money to income taxpayers for fiscal years 1995 through 1999, but has not exceeded the revenue limit in fiscal years 2000 through 2009. The State does not expect the limit to be exceeded in fiscal year 2010.

### **Major Initiatives**

Missouri will continue to focus on controlling the growth of mandatory programs through various cost-effective alternatives and streamlining government functions. Funding priorities are focused in the areas of education, health care, and economic development.

**Education.** Funding for education remains a top priority for Missouri. Even though Missouri is in a recession, funding for higher education was kept at its current level in return for an agreement that public universities would not raise tuition. A revision to the school funding formula was made in 2005. In fiscal year 2010, funding for Missouri Public schools will increase by \$67.4 million from fiscal year 2009 due to a change in the school funding formula.

**Healthcare.** An agreement with the Missouri Hospital Association to increase hospital taxes and generate an additional \$52.5 million occurred in fiscal year 2009. The new money will help draw \$93 million in matching federal funds, enabling the State to provide health coverage to 34,800 low-income adults in Missouri. The tight budget has prompted cuts to the Medicaid program, but does not affect the eligibility requirements of the program. The changes to Medicaid include increased use of generic drugs and ratcheting down utilization of services and rates paid to hospitals, doctors, nursing homes and in-home care agencies. It is estimated to save \$32 million for the State.

**Economic Development.** Three executive orders were signed to help stimulate the Missouri economy. The executive orders will ensure that the State of Missouri does everything it can to revitalize the state's economy. The first order, Executive Order 09-01, established the Missouri Jobs Task Force which will identify ways state government can best help Missouri's automotive industry and the industries that are dependent upon it. The second order, Executive Order 09-02, established the 15-member Governor's Economic Stimulus Coordination Council which will examine how the State of Missouri can maximize the money that will come from the federal stimulus program. The third order, Executive Order 09-03, directs the Missouri Department of Economic Development to work with the Missouri Development Finance Board to create a pool of funds designated for low-interest and no-interest direct loans for small businesses. All three of these executive orders are part of the Show-Me Jobs initiative which also calls for the expansion of the Missouri Quality Jobs Program and creates incentives for worker training and retraining.

## ACKNOWLEDGEMENTS

While the Office of Administration, Division of Accounting, is responsible for the contents of this report, no one division could do it alone. Many people were involved in the compilation of materials necessary to complete the report.

We want to issue a special thanks to all the personnel at the State agencies who provided us with information quickly and accurately so that we could issue the CAFR in a timely manner. We also owe thanks to the professionalism and dedication demonstrated by technical and management personnel within the State Auditor's Office, the State Treasurer's Office, Office of Administration, Information Technology Services Division, and the State Printing Center. We appreciate all their efforts.

Sincerely,



Mark A. Kaiser  
Director